

Message Text

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ACTION ARA-20

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FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 3673

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L CARACAS 3990

E.O. 11652: GDS

TAGS: EGEN, VE

SUBJECT: VENEZUELAN PRESIDENT'S ECONOMIC POLICY MESSAGE

REFERENCE TO ALUMINUM PLANTS INVOLVING JAPANESE

1. IN HIS FIRST ECONOMIC POLICY MESSAGE TO CONGRESS ON APRIL 29, PRESIDENT PEREZ REFERRED TO ALUMINUM PLANTS IN WHICH JAPANESE ARE INVOLVED IN FOLLOWING TERMS: "WE FIND OURSELVES WITH A CONTRACT ALREADY SIGNED AND ANOTHER UNDER NEGOTIATION FOR THE CONSTRUCTION OF TWO LARGE, NEW ALUMINUM PLANTS. IN THEM, GOVERNMENT PARTICIPATION IS MERELY A RIDICULOUS 25 PERCENT WHEN WE ARE THE SUPPLIERS OF THE MOST VALUABLE RESOURCE, WHICH IS THE ENERGY WHICH WE ARE SUPPLYING THERE TO THE INTERNATIONAL CONSORTIUMS THE SAME AS IS DONE WITH PETROLEUM. I ORDERED THE SUSPENSION OF THE NEGOTIATION UNDER WAY, AND REVISION OF THE SIGNED CONTRACT."

2. JAPANESE COUNSELOR CALLED AT EMBASSY MAY 3 TO COMPARE NOTES ON PRESIDENT'S ECONOMIC POLICY MESSAGE OF APRIL 29 IN GENERAL AND HIS REMARKS ON ALUMINUM PLANTS IN PARTICULAR. CONTRACT ALREADY SIGNED IS BETWEEN VENEZUELAN GUAYANA CORPORATION AND JAPANESE CONSORTIUM. OTHER BEING NEGOTIATED, AND WHICH WAS TO HAVE BEEN SIGNED THIS MONTH, IS BETWEEN
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TWO JAPANESE COMPANIES AND ALCASA (50-50 JOINT VENTURE OF

VENEZUELAN GUAYANA CORPORATION AND REYNOLDS ALUMINUM). ACTIONS AFFECTING THESE ALUMINUM COMPANIES, SUSPENSION OF NEGOTIATION OF ONE CONTRACT AND MORE DRASTIC ACTION OF REVISION OF ANOTHER CONTRACT ALREADY SIGNED, ARE NEITHER NATIONALIZATION, AS IN CASE OF IRON ORE INDUSTRY, NOR VENEZUELANIZATION AS IN CASE OF FOREIGN FIRMS ENGAGED IN SERVICES AND INTERNAL COMMERCE, WHICH WILL BE REQUIRED TO SELL 80 PERCENT OF THEIR SHARES OVER THREE-YEAR PERIOD TO PRIVATE VENEZUELAN. RATHER, ALUMINUM ACTIONS ARE MORE IN NATURE OF MANDATORY GOVERNMENT "PARTICIPATION" IN NEW INVESTMENT. ALUMINUM PROJECTS FALL UNDER PURVIEW OF MINISTRY OF COMMERCE (FOMENTO), RATHER THAN OF MINISTRY OF MINES AND HYDRO-CARBONS, SINCE THEY ARE INDUSTRIAL PROJECTS AND DO NOT INVOLVE NATURAL RESOURCES (UNLESS HYDROELECTRIC POWER IS CONSIDERED A NATURAL RESOURCE AS INDICATED IN PRESIDENT'S SPEECH).

3. JAPANESE COUNSELOR SAID HE HAD NO IDEA WHO WITHIN VENEZUELAN GOVERNMENT INSTIGATED THIS ACTION. (EMBASSY HAS NO INFORMATION ON THIS POINT EITHER, NOR DOES U.S. BANK REPRESENTATIVE WORKING WITH ALCASA PROJECT.) TO JAPANESE COUNSELOR'S REQUEST FOR ADVICE AS TO WITH WHOM IN VENEZUELAN GOVERNMENT HE MIGHT DISCUSS PROBLEM, WE SUGGESTED NEW PRESIDENT OF VENEZUELAN GUAYANA CORPORATION (AND FORMER HEAD OF ITS STEEL PLANT SUBSIDIARY SIDOR) GAMBOA, AND FORMER PRESIDENT OF VENEZUELAN BUAYANA CORPORATION, GENERAL RAFAEL ALFONZO RAVARD, WHO STILL IS PRESIDENT OF ALCASA. JAPANESE COUNSELOR SAID HE HAD TALKED WITH GAMBOA AND GAMBOA SAID HE KNEW NOTHING OF VENEZUELAN GOVERNMENT'S INTENTIONS. (U.S. BANK REPRESENTATIVE INVOLVED WITH ALCASA PROJECT SAID IN SUBSEQUENT CONVERSATION THAT ACTION ON ALUMINUM PLANTS IS OBVIOUSLY SLAP AT GENERAL ALFONZO RAVARD, WHO HAD WORKED HARD TO DEVELOP JAPANESE INVESTMENT IN GUAYANA AREA.)

4. JAPANESE COUNSELOR SEEMED WILLING TO ACCEPT SUSPENSION OF NEGOTIATIONS ON ALCASA PROJECT AS PART OF COMMERCIAL GAME, SINCE CONTRACT HAD NOT YET BEEN SIGNED, BUT HE WAS SHARPLY CRITICAL OF PROPOSED ACTION TO REVISE OTHER CONTRACT THAT HAS ALREADY BEEN SIGNED. ASKED ABOUT OIL REFINERY AND OTHER PROJECTS IN WHICH JAPAN WAS REPORTEDLY INVESTING, HE SAID CONFIDENTIAL

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THESE AND OTHERS ARE MERELY IN STUDY PHASE, AND HE DOUBTS IN VIEW OF PROPOSED REVISION OF CONTRACT ALREADY SIGNED WHETHER JAPAN WILL NOW PROCEED WITH FURTHER INVESTMENTS IN VENEZUELA. MCCLINTOCK

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